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The Conference Board
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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1986

The Conference Board Survey of Financial Indicators

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Introductory Note: This is the twentieth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

According to the 27 executives who participated in the twentieth survey of Financial Indicators and Corporate Financing Plans:

- Economic activity in the United States will continue to grow at moderate rates both this year and next, without slipping into recession in either year.
- On average, there will be little change in either short-term or long-term interest rates. A flat yield curve will prevail through 1987.
- Inflation will rise moderately from current levels, averaging 4.1 percent over the coming five-year period.
- U.S. companies will continue to rely heavily on internally generated funds and long-term bonds.
- Major currencies will appreciate against the value of the U.S. dollar.

Two More Years of Economic Growth

The U.S. economy is expected to grow at average rates of 2.9 and 2.8 percent annually in 1986 and 1987, respectively. These figures are broadly in line with the panel's estimates of last October. Only one executive sees a mild recession in either year, compared with a handful of executives in the last survey.

The financial executives have, however, sharply lowered their estimates of inflation for this year and next. They now see the GNP deflator rising by 3 percent and 3.6 percent respectively, as compared with 4 percent and 4.5 percent respectively last October. They have, accordingly, lowered their expectations for interest rates by about 1 percentage point for the prime rate and roughly 2 percentage points for the new Aaa industrial rate. They now see a flat yield curve with the prime rate averaging 9 percent each year and the Aaa rate averaging slightly more. No executive sees the prime rate averaging as high as 11 percent in either year, and only two see the Aaa rate averaging 11 percent or more. Two executives also look for the Aaa rate to average less than 8 percent in 1987.

The Panel's Five Year Outlook for Inflation

Panel members look for inflation to average 4.1 percent during the five-year period 1986-1990. This represents the panel's second successive downward adjustment in its estimates of inflation, from 4.8 percent last April and 5.9 percent two years ago. The rate of 4.1 percent is somewhat higher than the average rate of inflation during the last three years. Also, given the panel's estimates of inflation for 1986 and 1987, the five-year average rate implies that inflation will average 4.7 percent in the period 1988-1990.

The Outlook for Corporate Finance

Surveyed executives indicate that their companies are planning to rely more heavily on internal funds in the coming twelve-month period and that they, once again, plan to rely heavily on new bond issues for their own borrowings of external funds. Companies in the survey normally rely more heavily on internal funds and they normally rely more heavily on bonds and commercial paper than do nonfinancial companies as a whole. In the past twelve months, however, the latter have relied more heavily on bond issues, and have lowered their net equity in credit markets by $81.6 billion. While this shift is understandable in light of the mergers and acquisitions that are taking place, the massive reduction in equity nonetheless has caused concern about whether some companies will have enough capital to weather the next recession.

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The Panel's Outlook for Inflation

Number of Panel Members

	Less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*	*Range*	*Average*
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8
April 1986	9	13	2	2	0	2.5-6.5	4.1

A Weaker Dollar Ahead

The financial executives whose companies engage in international operations see the U.S. dollar continuing to weaken in the months ahead. The majority look for the German mark and the Japanese yen to appreciate against the dollar in both forecast periods. Fifteen executives see a rise in the mark of more than 5 percent and eighteen see a rise in the yen of more than 5 percent by September 30, 1986. The majority also expect the Canadian dollar and the British pound to appreciate against the dollar by September 30. Executives are also looking for a slight increase in the dollar price of gold in both forecast periods.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Waters at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average June '86 (2nd Q GNP)	Average Sept. '86 (3rd Q GNP)	Average 1986	Average 1987
New Aaa industrial rate (%)	10.0	9.2	9.2	9.3	9.5
Prime rate (%)	9.5	9.0	8.9	9.0	9.0
Dow-Jones Average (Index)	1,535.0	1,761.0	1,784.0	1,727.0	1,732.0
Real GNP (%)	2.4	3.0	3.3	2.9	2.8
GNP deflator (%)	3.3	2.6	2.8	3.0	3.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds*	79	8	1	9	2	2
External Funds	21	8	2	2	1	9
	100%					
(b) Composition of *External Funds*						
Net new bond issues	51.9	5	0	6	0	6
Private placements	8.4	12	0	0	2	3
Net new equity	5.6	12	1	0	0	2
Bank term loans	−6.9	14	0	2	0	0
Bank short-term loans	−4.2	14	0	0	0	2
Commercial paper	30.3	7	0	2	1	7
Other	14.9	14	0	2	1	0
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1986:

	Latest Available	Expected Change: By June 30, 1986 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By Sept. 30, 1986 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7027	11	10	0	4	0	5	13	1	6	0
British pound	1.44	7	9	3	6	0	3	11	4	2	5
German mark	.4486	3	10	10	1	1	1	7	15	1	1
Japanese yen	.0056	2	9	11	2	0	2	4	18	1	0
Gold	$338.15	5	9	2	4	2	4	10	3	3	2

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